

ASHESI UNIVERSITY COLLEGE

**VALUATION OF HUMAN CAPITAL IN THE SPORTS INDUSTRY: A STUDY OF
THE GHANAIAN FOOTBALL SECTOR**

BY

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this University or elsewhere

Candidate's Signature:.....

Candidate's Name:.....

Date:.....

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis was supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

Supervisor's Signature:..... Date:.....

Name:.....

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ABSTRACT

The main purpose of this study is to understand the factors that are taken into account when quoting transfer fees for players as an element of human capital valuation.

The study adopted an exploratory research approach by interviewing local football clubs in Ghana in order to gain an in-depth understanding of the subject.

From the research, it is revealed that human capital valuation is very prominent in the football sector through the proposal of transfer fees. The goal of football clubs is to achieve significant capital gain on resale of players. It is also found that local football clubs consider a lot of factors in proposing player transfer fees. However, the main factor that affects all the others is the performance of the players.

Responses gathered also indicate that clubs do not have a specific valuation model to use after considering all the factors to propose transfer fees. Transfer fees inevitably have a speculative dimension.

Recommendations made for the study was based on a derived model which considered all the factors that clubs taken into account when proposing transfer fees.

Keywords: *human capital, transfer fees, human resource accounting, valuation*

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Chapter 1- Introduction

1.1 Background to the Study

In order to understand the nature of human capital, one must first grasp the concept of measurement. Measurement is defined as the process of making values meaningful by quantifying into specific units (Business Dictionary). It provides information that can be used for appraising performance and creating improvements in goal directed behaviour as well as making values useful in detail. The accounting system with its assessment of financial and managerial function is part of a broad measurement system that adds to the function of providing information.

In the field of human resource planning however, there is the difficulty of measurement. That is to say, questions are raised on how inputs put into personnel training and management are determined and can be measured on a standardised basis which is preferably financial. An effort to measure human resources financially has brought about what is known as Human Resources Accounting (HRA). Human Resources Accounting seeks to measure the value and the cost of people to organisations. Research into HRA was initiated by researchers from Michigan University's Institute for Social Research led by Rensis Likert.

Although the study of HRA originated in the United States, global additions have led to the growth of the field and necessitated a more in-depth study in human and intellectual capital as well as human resource measurement and management of organizations.

HRA is defined as measuring and reporting the value and cost of people as a part of resources of an organisation (Flamholtz and Lace; 1981) and is grounded on

the concept that human beings are priceless to an organisation. Human resource form an integral part of an organisations resources. An integral aim of HRA is to inform stakeholders about organisations human assets.

Human capital is valuable in every market category in which they can be found. In the sports industry, specifically football, a distinctive perspective is provided for the valuation of human capital using football players as the example of human capital. The market for football players just like other markets relies on human resources.

The nature of the football sector may differ slightly from the common organisational structure in some terms. However, in both markets, human capital is identified as valuable assets to their various fields. As in most organisational sectors, football players do not work alone in their profession but rather come together as teams who are assessed and valued. In addition, valuations are seen to take place excessively in the football sector mainly because of player transfer fees paid and received by clubs.

1.2 Problem Statement

Although the football sector quotes prices for football players through transfer fees, there are usually cases of doubts raised concerning quoted prices of players.

The transfer fee is the financial sum that goes together with the transfer of a player from one club to another (KEA; CDES, 2013). Although clubs pay players wages, the transfer fee has to be paid to the home club to allow the new club register the player as their own. The prevalent expenses for teams in the English

Premier League which is England's highest ranked football league, are wages used up on players and transfer fees used to acquire such players (Battle, et al., 2011). However, debates worldwide arise on the value that is placed on players during transfer seasons.

In 1999, a player transfer Commission of Inquiry was setup to investigate the discrepancies of misstated football player transfer values in Ghana by some local football clubs (Ghana News Agency, 1999). The need for the commission shows the lack of understanding of determinants of transfer fees. In Zimbabwe as well, the Zimbabwean Football Association began investigations into the transfer of some players whose transfer fees they believe, were understated (Mapasure, 2013). The recent controversy in September 2013 surrounding the transfer of Gareth Bale from Tottenham to Real Madrid for a record high amount of £85m also questions the factors that were considered in his transfer value.

In the football industry, there are a lot of active transfers of players between players during each transfer season. The issue however lies in identifying the determinants of transfer fees as a basis for valuing all players, as controversies on overstated and understated values arise out of the value placed on football players.

In view of this problem, this thesis will focus on the valuation of human capital (football players) in the Ghanaian football sector at the club level. It is necessary to understand the factors club managers and owners consider before valuing their football players.

1.3 Research Questions

The thesis seeks to identify the main determinants of transfer fees and assess how human capital is accounted for in the football sector. In doing so, the system of player valuation will be analysed by reviewing how much worth is placed on individual players. This will be achieved by addressing the following questions:

- a) What factors are taken into account when proposing player transfer fees?
- b) What value or worth do clubs place on the training of football players to improve their skills?

1.4 Objectives of the study

The purpose of this study is to assess and measure the impact of Human Resource Accounting in the Ghanaian football sector. However, the study will specifically endeavour to:

- a) Investigate the factors that are taken into account when proposing player transfer fees.
- b) Find out how clubs measure the value of training and health care given to players.

1.5 Significance of the study

The findings of this study will help identify factors considered in valuation methods being used to assess local football players in Ghana. In addition, the study is a contribution to existing literature in providing knowledge on the importance of Human Resource Accounting and, for those in the sports industry to adopt in valuing their human capital particularly in Ghana as research done

suggests that there is limited literature on the concept of valuing human capital in Ghana.

1.6 Literature review

The basis of human capital dates back to the materialization of classical economics in 1776, and subsequently established as a scientific theory (Dae-Bong, 2009) . Researchers generally show a division of three types of human capital. These are general, firm specific and task specific human capital (Dae-Bong, 2009). Different valuation models have been developed over the years as a means of valuing human resources. Under these models, various factors are considered and taken into account before arriving at a final value for human resources.

A study of the English football league indicates that clubs depend on the abilities of their players for success and in doing so keep the professional players when they are good but give them up quickly for transfers when they are performing well. A club which parts with a well performing football player will indefinitely propose a considerably high amount for the transfer fee for the player in question (Sloane, 1969)

1.7 Methodology

The purpose of this study is to identify the various factors that local football clubs take into account when valuing their players. Due to the nature of the research, a qualitative exploratory research approach was adopted. This method was selected because it was necessary to understand the factors that affect valuation of players and how these factors are valued.

Interviews were conducted through a purposive snowball sampling technique and random sampling of football clubs listed in the Ghana Football Association directory with stakeholders at the local club football level such as club owners, managers and football players. The data gathered from the study was then analysed using content analysis to identify particular patterns and trends in responses.

1.8 Outline of the Thesis

This thesis will be organised into five chapters. Chapter one will introduce the topic by giving a background to the subject of Human Resource Accounting and how it is incorporated into the football sector. It will also give the importance and focus of the study by addressing the problem statement, research questions, objectives and the scope of the study. Chapter 2 will review available literature which is relevant to the study. Chapter 3 will discuss the methodology that will be employed in the study and give details on the process and tools that will be used to collect needed data. It will discuss the system of analysis that will be used for the collected data. Chapter 4 will give an analysis of all data collected in the study and chapter 5 will contain a conclusion of the thesis with necessary recommendations.

1.9 Scope and Limitations of the study

The study was conducted mainly with football clubs located within the Greater Accra Region. This included football clubs located within the capital Accra and Tema because it was convenient to have access to managers and club owners within this region. With regard to the scope of the study, data collected in mainly Accra and Tema limited the findings of the study to clubs in Greater Accra Region which may have the same characteristics. The use of a snowball sampling technique

may also give biased data as club owners may recommend other owners and managers who consider the same factors to value their players. However, the snowball sampling technique despite its shortcoming is extremely useful in contacting individuals in the same group and for this research. A random sample of clubs in the GFA directory also reduced the shortcomings associated with the snowball technique.

Chapter Two: Literature Review

2.1 Introduction

In addressing the main objective of the study, this chapter reviews the necessary literature. It starts by giving an overview of the concept of human capital, the various human capital valuation methods that have been developed and the factors that are taken into account when using these models. Next, it deals specifically with literature on how participants in the various aspects of the sports industry are valued and finally looks at the case of the Ghanaian football sector.

2.2 The theory of Human Capital

The basis of human capital dates back to the materialization of classical economics in 1776, and subsequently established as a scientific theory (Dae-Bong, 2009). After the materialization of that conception as a theory, some theorists like Shultz in 1961 recognized human capital as an essential feature for national economic growth in the modern economy.

With the materialization and development of human capital as an academic field, some researchers comprehensively tried to spell out how human capital could contribute to sociopolitical growth. (Dae-Bong, 2009). Theorists like Gary Becker also defined human capital as the basic resource in any company. For him, the most booming organizations and countries will be those that manage human capital in the most effective and efficient way by linking it to economic growth right from the individual to the nation (Pallavi & Neeraja Rani, 2012).

The concept of human capital can be grouped by different views of academic fields. The first view recognizes human capital as something similar to property which is accepted by most researchers as being knowledge and skills rooted in an

individual. Another view also links human capital to an investment that individuals make in themselves or others to increase their productivity (Dae-Bong, 2009).

In recent times, other researchers define human capital as a combination of factors like education, training, work habits, experience and energy that influence the worth of a worker's productivity (Dae-Bong, 2009).

Reflecting on the production oriented view, human capital can thus be defined as the accumulation of skills and knowledge rooted in an individual's ability to work to produce economic value. Based on this definition, the amassing of playing skills through field training and physical training can be viewed as a structure of human capital.

Human capital is also regarded as an investment based on the logic that it entails costs and expected returns. This is to say that wages paid to an individual can be regarded as the leasing value of an individual and the varying acquired human capital explains to a large extent, the differences in wages (Antonietti, 2006). With regard to this as well, athletes can be regarded as people with physical and cognitive capabilities which when developed, produce benefits in terms of earnings and opportunity costs from another view.

2.3 Human Resource Accounting in Decision Making and Reporting

With the recognized need to value human capital in future financial reporting, managers also identify the use of HRA as a helpful mechanism in making decisions at the management level (Bullen & Eyler). These decisions are projected to benefit the organization in long-run profitability and goals of the firm.

In cases where managers adopt the process of HRA in measuring and valuing human capital, they are more liable to formulate and implement decisions that regard the organisation's employees as investment made by the organisation. An example is given where probable layoffs with the practice of HRA processes will not only consider traditional accounting practices but enable managers to understand unseen costs and implications to human capital (Battle, et al., 2011). Managers may be less willing to promote layoffs as a method of boosting profits in the short term at the cost of productivity and profits in the long run.

2.4 Types of Human Capital

Researchers generally show a division of three types of human capital. These are general, firm specific and task specific human capital (Dae-Bong, 2009). General human capital is identified by the broad knowledge or skill set not peculiar to a particular assignment or industry but normally acquired through education and experiences in working. Human capital of this nature can be transferred across various industries.

Distinguishing from the general human capital, task or firm specific human capital is normally acquired through training and experience on knowledge and skills peculiar to a precise job or organisation. Human capital of this nature is not usually movable to other jobs, organisations or different industries. They are however, highly marketable in their specific industries (Dae-Bong, 2009).

2.5 Background of Human Capital Valuation Methods

Human capital valuation is making estimations of future behaviours that human capital is probable to carry out, and forecasting the present value of that

future flow of behaviours. Business valuations normally use past financial performance as a guide in making estimates of future performance. Human capital valuations may use past behaviours as a guide in making forecasts of future behaviours. A precise human capital valuation is likely to help contribute to the overall accuracy of the organisational valuation and thus help investors and owners make better investment decisions.

2.6 Human Capital Evaluation Methods and factors considered

The valuation of human capital is quite complex as it does not give a completely accurate value but rather approximate values. This is because human capital is considered as an intangible asset by finance academics and economists. However, various models have been formulated over a period in an attempt of valuing human capital. This section addresses and analyses models developed by Flamholtz and contemporary models for human capital evaluation which include Acquisition cost model, Replacement Cost model, and the Economic model.

These models can be broadly categorised into cost models and economic valuation models.

2.6.1 Cost Models

Human Resource costs are incurred to acquire or replace employees. Like other related costs, these include expenses and asset parts. The cost approach is generally used in organizations where high uncertainty and limited information exist.

2.6.1.1 Acquisition Cost Model

The acquisition cost model which is also known as the *historical cost model* was first introduced by Rinses Likert in 1967 (Garg). It has some similarities to the usual Balance Sheet and Profit & Loss Account which also rely on historical costs basis. This model seeks to capitalise organisations expenditure on hiring, selection, training and development of employees and regarded as assets for HR Accounting.

The total expenditure spent on these activities is treated as the opening value cost of employees. The amount is then amortised similar to the system of fixed assets depreciation over a given period of time. The period of time used to amortise the expenses incurred in acquiring and training employees is based on the expected duration of stay for employees in an organisation.

This model assumes a direct relationship between expenses incurred on an employee and the value that is given by that employee to the organisation at a particular time. It can be said to be the only model of evaluating human capital that has a basis on accounting principles and policies.

2.6.1.2 Replacement Cost Model

The replacement cost model which was first introduced by Rensis Likert and later developed by Eric G Flamholtz, addresses the cost of replacing employees and rebuilding an organisation on the HR asset value of the organisation (Methods of Human Resource Accounting). This does not treat the historical cost in hiring, selection, training and development of employees. Instead, it takes into account the future cost that will be incurred in the hiring, selecting, training and development of a new employee to substitute an old employee.

There are two different concepts under replacement costs which are individual replacement costs and positional replacement costs. Individual replacement costs include the cost of training and selecting new employees to the normal productivity level of old employees while positional replacement costs deal with estimation of costs with reference to different positions in an organisation rather than specific employees.

This method however, is not used in basic accounting practices. It however considers the opportunity cost of revenue that is lost during the selection and training of the new employee as an additional factor to the similar factors mentioned in the historical cost model.

2.6.1.3 Opportunity Cost Model

The opportunity cost which is sometimes used on its own as a model of human capital evaluation considers the monetary value of people to activities which could have occurred. This model was developed by Hc Kiman and Jones (Methods of Human Resource Accounting) to overcome the confines of the replacement cost model. It is normally used under the replacement cost model and not on its own.

2.6.2 Economic Valuation Model

The economic model which is being put forward by Baruch Lev & Abaa Schwartz is known as a present value model and is derived on a basis that part of organisations future revenue is directly related to the human resource of that organisation. Therefore, the present value of the organisations future earnings which is calculated by using an appropriate discount factor is used as the value of human resources assets.

It is calculated in a given formula which is given as:

$$E(VY) = \sum_{t=0}^{T-y} \frac{P_y(t) I(t)}{(1+R)^t}$$

Where

$E(VY)$ = expected value of a Y year old persons human capital.

T = persons retirement age.

$P_y(t)$ = probability of person leaving the organization.

$I(t)$ = expected earnings of person in period t

R = discount rate.

This method however, is flawed based on the high subjectivity of discount rates and the allocation of future revenue to different factors which all result in revenues. It also ignores the possibility of death before retirement.

2.6.3 Stochastic Rewards Valuation Model

The Stochastic Rewards Valuation Model, which was originally propounded by Flamholtz in 1971, is in five stages which begins with defining the various service states or organizational positions that an individual may occupy in the organization. It is built on the idea that an individual's value to an organisation can be established as the present value of services that that is expected to be rendered in the future for the period of time he or she is expected to stay in the organisation. It identifies the main variables which show the value of an individual to the organisation. It propounds that an employee generates value for an organisation as he stays and plays different roles and services to the organisation.

Movement of employees from one role to another in an organisation is a stochastic process. This is because it is analysed using probability theory. An employees' expected value of an organisation can be measured as the discounted mathematical expectation of the monetary worth of the future rewards (services) a person is expected to render to the organisation in future roles he is expected to occupy, taking into consideration the probability of his stay in the organisation.

The model suggests a five step approach to assess the value of an individual to the organisation:

- ♦ forecasting the period a person will remain in the organisation. This refers to an employee's expected service life.
- ♦ Identification of service states which are the roles an employee might occupy and the time at which he will quit the organisation.
- ♦ estimating the value derived by the organisation when an employee occupies a particular position (service state) for a specified time period.
- ♦ estimating the likelihood of occupying each possible mutually exclusive service state at specified future times.
- ♦ discounting (at a specified prearranged rate) the expected service rewards to their present value.

Theoretically this model suggested by Flamholtz is the most scientific model since provides an outlook adjusted economic value of human assets. However in practicality, its use is very difficult as the collection of reliable data concerning the

value of a service state, an employee's expected tenure and the probabilities of occupying various service states at specific times is not straightforward.

2.7 Developments in use of valuation models

Some companies in various countries have adopted models in reporting for human resources. However, based on the literature review carried out, there is evidence of only the application of the Lev & Schwartz Economic Model. However, in past experimental studies, Flamholtz model was applied to several companies in both the industrial and service sector. Most Indian companies like Infosys, SPIC and BHEL have adopted the Lev & Schwartz economic model (Siriseti).

Southern Petrochemicals Industries Corporation Ltd. (SPIC), a product and service provider of agricultural and eco systems support services also indicates information on their human resources based on the Lev & Schwartz economic model in their annual report for 1993 to 1994.

Contributions by international bodies to the subject of HRA have led to growth of the subject and an extensive study of human capital and organisational management. However, it is evident from reading that one valuation model has not been adopted as the standard for valuing human resources by an accounting standard committee.

2.8 The economics in transfers: a perspective of the European football sector

Discussions surrounding the economics of sports can be traced to Simon Rottenberg's paper on the market of baseball players published in the Journal of Political Economy in 1956 (Rottenberg, 1956). This paper was written from a North

American perspective having all references originating from the US. According to Sloane's evaluation of the paper, the essential aspect of Rottenberg's paper was that the economics of sports could be understood using similar economic frameworks as other industries (Sloane, 2006).

The emergence of sport as an economic sector in the European market is quite new. Though it seems quite important on the media and social platform, it remains a comparably small sector on the overall economic activity of Europe (KEA; CDES, 2013). Transfer rules in the European Union affect rules over the support of the development of youth and competitive fairness through regulations on stable contracts, unity and methods of redistribution. However, rules on factors for football clubs to consider in player transfer fees are not spelt out in the transfer rules (KEA; CDES, 2013).

A study of the English football league by Sloane suggests that clubs depend on the abilities of their players for success and in doing so keep the professional players when they are good but give them up quickly for transfers when they are not performing well. A club which parts with a well performing football player will indefinitely propose a considerably high amount for the transfer fee for the player in question (Sloane, 1969). This shows the basic need of clubs to make profit as a business entity. Clubs also put in a lot of effort in acquiring the best of players which makes competition among acquiring clubs very intense. This is shown in the huge spending amounts identified in the transfer market. For instance, high ranked clubs in Spain, Italy and England payed out a total amount of £850 million to acquire new players for the summer of 2010 (Gulbrandsen & Gulbrandsen, 2011).

The main goal of the transfer market in European football is to aid and monitor the movement of players from one team to another team. Buying players in the transfer market is viewed as an investment (Amir & Livne, 2001). This idea of investment made by acquiring football players corresponds with the earlier concept of athletes as investments put forward by Antonietti in 2006. For him, human capital is an investment because costs are incurred on them and later recouped as returns through their performance and contribution to the organisation.

2.9 Approaches in determining transfer fees

Research done by Gulbrandsen and Gulbrandsen in 2011 suggests that in the transfers of players, the present value of the player being transferred should be taken into consideration and should be higher in the buying club than in the player's current club. This is given as a basis because the buying club should be able to recompense for the current club's loss of the player. In contradiction to this, the current club would be in a better position if the player is not sold at all. For a transfer of a player to be possible, the value added should be greater than the value lost (Gulbrandsen & Gulbrandsen, 2011).

A study by Kanyinda and others in 2012 goes further to assess the value of footballers' performance on the basis of new methods implemented in market finance by Black & Scholes in 1973 and Merton in 1973 and adapted to company finance by Myers in 1977. This method, referred to as real options, complements other existing player price valuation methods and takes into consideration the uncertainty entailed in pricing football players (Kanyinda et al 2012). The article outlines the two methods of evaluating a footballer and highlights that the players

value can be measured on the basis options on real assets with the foundation on determinants such as injury and marketing value such as sale of jerseys.

Another approach used by UEFA in the 1990's to determine the transfer prices of players in European football clubs was the income multiplier approach (Kanyinda et al, 2012). The stated price had to be at least equal to the total salary of the football player multiplied by a coefficient based on the age of the player. However, a weakness identified in this method was that it did not take into account the fact that player gross salaries could be overstated in order to inflate transfer prices. The minimum profit required by the investor which is in this case the club, is also not taken into account.

A review of Flamholtz's replacement cost theory will indicate that accounting for recruiting costs in football will include training costs, hiring costs of training fields and trainer wages. This will enable clubs to derive an estimate of which costs are assigned to each player. However, problems of locating and distributing costs among players may arise. The problem can only be overcome by ensuring that all players sign professional contracts in the club. Acquisition costs should include all expenses incurred by the club in development of players. The value should then be amortised in equal instalments over the duration of the initial player contract.

In some football association guidelines, there are provisions for accounting for human capital. For instance, the guidelines given by the Swedish football association state that player contracts are to be regarded as fixed assets (Aronsson et al, 2004). However, it is stated in the account plan that they are to be accounted

for as intangible assets. These regulations are quite unclear for clubs and not quite easy to understand.

In developing measurements for human resource accounting, the first step is to select the types of HRA measurements that are desired by the organisation. This will be between single measurements or a set of measurements and monetary or non monetary measurements. Before adopting the selected methods however, the validity and reliability must be tested.

By interpreting costs associated with unaccounted assets like human capital, it makes it easier for the value and potential of an organisation and in this case a club, to be known. Though there are many issues associated with the different models known like the lack of a universally accepted method of the valuation of human resources, accounting for human capital in the long run show additional values that exist within an organisation.

Chapter 3: Methodology

3.1 Introduction

This research was designed to study how football clubs in Ghana value their human capital. The human capital in question here are the football players of the clubs. This chapter focuses on the methodology that will be used to conduct the research. By adopting the correct research method to back the literature, this chapter also defines the study area and the population needed for the study. The methodology segment also details out the how the data collected was processed to interpret the results.

3.2 Research Design

An exploratory research was used as a qualitative case study method in carrying out the research. With the need of assessing the type of valuation methods used by football clubs for their players, there is the need to describe the methods used. This makes the qualitative case study approach an appropriate method to adopt. The qualitative case study method was adopted for the following reasons as well:

- The focus of the study is to answer how football clubs value their human capital.
- The behaviour of those in the study will not be able to be manipulated.
- The topic requires an in-depth understanding of the subject.

With the prevailing limited amount of research done on human capital evaluation and particularly in the Ghanaian sports industry, an exploratory approach to the research proved most useful.

3.2.1 Study Area

The study area for the research was mainly in the Greater Accra region, specifically the capital Accra. This included areas where local football clubs are located. Areas like Ridge were also be used because the Ghana Football Association is located there.

3.2.2 The Study Population

The target population for the research was made up of football club owners, accountants and managers. The population was limited to this segment because they are directly involved with valuing football players based on their transfer contracts. The exact population number cannot be identified since there a quite a number of local football clubs in Ghana which are not all listed in the GFA directory. A snowball sampling technique is used to identify the subjects of the population because it makes it easier to recruit them for the study.

3.2.3 Target Sample and Size

Football clubs from which club owners and managers will be approached include clubs within Greater Accra Region. Authorities from the Ghana Football Association will also be approached for interviews

3.2.4 Sampling Procedure

Purposive snowball sampling method and random purposeful sampling were employed to locate various football club owners for this research. A purposive sampling helped to get an understanding of the research topic.

Purposive sampling is a sampling technique that selects participants of the research based on the researcher's judgement on who will be able to provide the best information to achieve the objectives of the study (Kumar, 2008). Since the

practice of valuing football players had to be understood, participants who were selected for the research had to be knowledgeable and relevant to the research study. The research employed subjects that were purposely chosen because they served as *informants*—people who can relay inside information about the group being studied. It is however important to note that the findings from this study were limited to the informants from which they were derived.

The research also employed snowball sampling because it asked study participants to make referrals to other potential participants, who then made recommendations to other participants, and so on. With the aim of the study being qualitative, snowball sampling offers practical advantages as it is used to often conduct qualitative research mainly through interviews. Snowball sampling can be viewed as an alternative strategy for attaining more comprehensive data on a particular research question.

Though the use of snowball sampling may draw criticisms such as sampling bias and limitations in generalizing results, it also produces good research results. In most research, the ideal strategy would be to test the whole population. However, when the population is quite large like that for this research, it is impossible to include every subject for the research. In snowball sampling, the subjects relevant people for the study are contacted. Some other advantages of using snowball sampling include the benefits of obtaining basic data and trends for the study without the difficulty of using randomized sampling.

The purposeful random sample was used in contacting respondents through the GFA directory. This involved selecting respondents not based on advanced

knowledge of the outcomes. This method also helped to increase the credibility of the study and not foster representativeness (Cohen & Crabtree, 2008).

3.3 Data Collection

A hallmark of good case study research involves employing multiple data sources. This also improves the credibility of the data. Both primary and secondary data were the main sources for gathering data for the research. Primary data sources included answers received from respondents in the research. This was conducted mainly through interviews.

Interview questions contained both open ended and close ended questions. With the aid of content analysis, the open-ended questions helped in getting an in-depth understanding of participants' responses. The close ended questions helped in limiting and gathering more organised responses from respondents in the study. The questions were structured in a manner to cover all the objectives of the research.

3.3.1 Pre Testing questions

Interview questions were given to some individuals outside the scope of the study. This was to assess how respondents in the main study would understand the interview questions put forward. Pretesting helps to assess the capabilities of the selected mode of data collection, and the overall adequacy of the field procedures

It is not easy to envisage likely biases or misinterpretations in interview questions. Thus, it is important to do a pilot test of the interview questions to gauge the feasibility of the individual technique. It also gives the chance to perfect the wording of the questions.

3.3.2 Fieldwork

The interviews were held by booking appointments with the respondents for the study. This was to ensure that respondents were adequately prepared before the date of interview.

3.4 Data Analysis

After collection of the data from the interview, all notes were read thoroughly to understand information that was given out by participants. The initial processing was done after notes were transcribed and involved reading and rereading of the notes to identify patterns and themes in the responses. Summary sheets were created for each response after transcribing the notes to serve as a memory booster when categories and themes were being identified.

After analysis of data was done with themes and recurring patterns, a discussion was done on the outcome describing factors that were mentioned in the interview. This discussion was done to identify similar factors used in models explained in the literature review and create an effective link between reviewed literature and findings.

3.5 Limitations

In conducting the research for the study, there were some limitations the researcher encountered and recognised. Although a purposive random sampling was done to ensure representation across the different football segments, there isn't an equal representation of respondents from the various divisions. This was due to the unwillingness of some clubs to partake in the study

There was also some difficulty in meeting all the respondents for the interview. This was mainly due to busy schedules of respondents. In overcoming this problem, the researcher resorted to telephone interviews for some of the respondents who could not have physical interviews. Telephone interviews helped to maintain the involvement of respondents for the study.

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Chapter Four: Results and Discussions

4.1 Introduction

This section outlines the results and the associated discussions for the study. The results and the related discussions on findings support the objectives of the study. The results are divided into three sections. The first section outlines the level of responses and gives a profile of the sample of clubs that were interviewed. The second section covers analysis and discussion of data from the interviews and the third section discusses the results in relation to the literature.

4.2 Profile of Sample

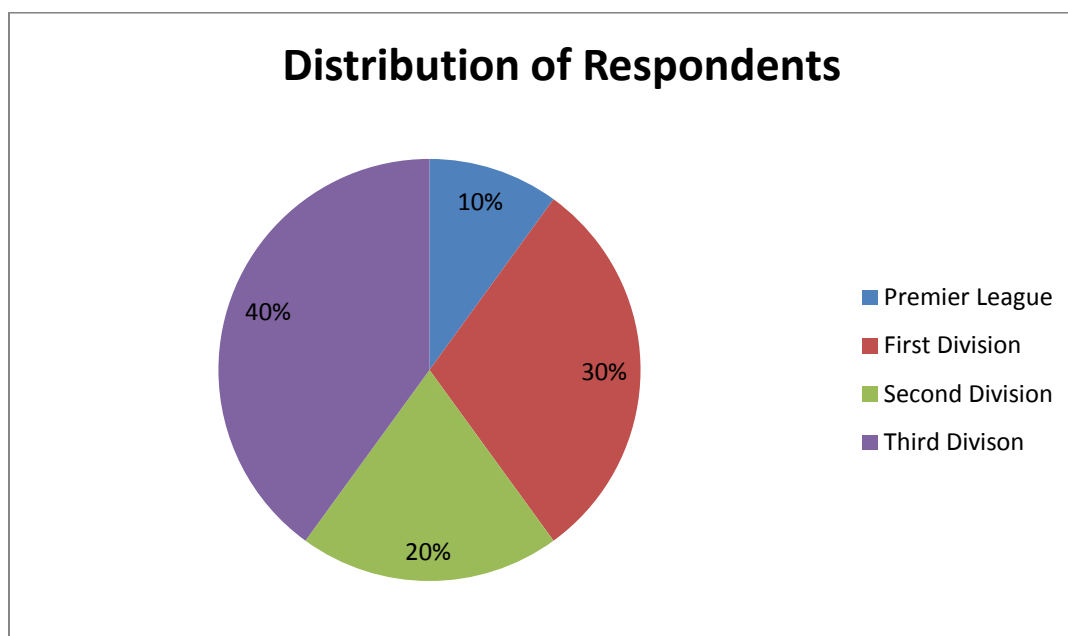
This section highlights the biographic and background information of respondents who took part in the study and the clubs they represented. Respondents for the study included general secretaries of the clubs, accountants, club managers and the owners of the various clubs. This information is necessary because it gives the reader an understanding of how the nature and type of the clubs will have a bearing on the findings.

4.2.1 Response rate

Respondents from football clubs were approached through the snowball sampling technique and through a random sample of clubs that were listed in the Ghana Football Association directory. In total, a number of fifteen clubs were initially contacted for the study. However, a final number of respondents from ten clubs were successfully interviewed for the study based on availability of representatives and willingness to take part in the study. Out of the 10 clubs which

participated in the study, respondents from the clubs interviewed are represented below:

Chart 1: **Distribution of Respondents**



Out of the clubs interviewed, a majority of respondents were from the third division with 40% respondents. Clubs from the first division made up 30% of response rate, with clubs in the second division representing 20%. The premier league had the least representation of 10%.

4.2.2 Structure of the local football sector

The Ghanaian football clubs include clubs which are categorised as premier league clubs, division one clubs, and right through to third division clubs as categorised by the Ghana Football Association. Clubs in the premier league are more recognised than clubs in the first division, second and third division clubs. To qualify to move into higher divisions, clubs must top their zonal groups in which they are placed in.

Respondents from clubs interviewed for the study included representatives from each of these categories. Some of the clubs interviewed include clubs that have been in existence since the 1990's and clubs that are less than five years in existence.

Players are normally given a contract duration of three years when being signed on. However, high profile players normally have contract duration of two years.

4.3 Determinants of transfer fees

This section focuses on the findings of the study in relation to the research objectives which aim at answering the main research question: What factors are taken into account when proposing player transfer fees?

Transfers of football players occur between two clubs. Transfers normally occur when a player is moving from a lower division club to a higher division club. There are however some cases where players have been reported to move from clubs in the same level category.

The determinants of the transfer fees as found from the study are listed and explained in detail below:

Performance and fitness

Though different factors are mentioned in considering transfer fees, the performances of players are critical in proposing transfer fees. Managers interviewed indicated that the performance of the players were very critical for promoting the team as well as securing more lucrative transfer deals for players.

The ability of players to perform well during matches attracts prospective and interested clubs to bid for them. Players who perform well are also deemed to be physically fit and preferred by clubs. It is after this first step that the other factors come into play in determining the transfer fees.

Investment in players

Clubs always consider investments made in players before quoting transfer fees. For the clubs, investments must be recouped and some profits made after overall transfer fees are quoted. Factors that are considered in player investment include salaries, medical expenses, jerseys and playing boots, initial payment on acquiring player and other fringe benefits enjoyed by the player. Medical expenses in this case include the cost of healthcare administered to the players as a result of injuries sustained. Different expenses are incurred on the different players in the team and this partly accounts for the difference in transfer fees quoted for players.

Clubs also indicated that during periods of injuries which incapacitate players and make them unable to play, players are nonetheless paid their weekly salaries as per the contracts agreed with clubs. Situations like these are considered when quoting transfer fees.

For clubs like the third division clubs which may not have their own fields, other costs incurred include paying for parks to train on daily. The daily cost for hiring a park may range from GHS 15.00 to GHS 25.00.

Division of club

From data gathered and analysis of the data, it is seen that one of the main factors considered for clubs who are proposing to acquire a player from another club is the division of the current club that the player belongs to.

The highest transfer fees are normally recorded in transfer deals which include premier league clubs. As the division of the clubs move down levels, the general trend is to see a reduction in quoted transfer fees. However, there are always a few exceptions where clubs in the lower divisions may receive a high amount for transfer fees.

In the Ghanaian football sector, prices quoted for transfer fees are normally within the range of GHS30,000- GHS 40,000 for premier league clubs, about GHS10,000 for division one clubs and around GHS5,000 for division two clubs and as low as about GHS 500 for third division clubs.

Position of players

In the football game, different players play different positions in the team. The football team includes goal keepers, strikers, mid fielders and defenders. In most cases, different prices are quoted for players in the different positions occupied. Most often than not, strikers are more costly to acquire than midfielders and other player positions.

Demand factor

The demand for a player by more than one club can also affect the transfer fee quoted by a club. In a situation where a player is being approached by more than one club during a particular playing season, it is likely that his home club will

have the upper hand and quote higher prices to proposing clubs. In cases where the current contract for a player is not up, the home club for the player quotes a higher price to asking clubs.

Age of players

The age of the players involved in transfers may also affect the quoting of transfer fees. However, this was not the case for all clubs interviewed. For premier league clubs, the age of the player may affect the transfer fees in two different ways. Younger players with a lot of potential based on performance over the previous playing season may receive higher transfer fees than older players who may not exhibit as much potential. However, younger players who may exhibit potential may also have low transfer quotes based on their inexperience in the football sector. For lower division clubs like the third division, it is normally difficult to quote very high transfer fees for players who are above 25 years of age. This is because acquiring clubs prefer players who are not too old and have the potential to be trained.

The role of the foreign market

Increases in transfer market prices are normally affected by the foreign market especially from clubs in the premier league. Normally, players move from premier league clubs in the country to clubs outside the country. The foreign asking clubs normally have more say in quoting transfer fees to local premier clubs in Ghana. However, local clubs always recoup expenses and investments made on players from these transfers.

Media Influence

Some managers interviewed especially from the premier league clubs cited the effect of media influence in proposing transfer fees. Though this factor may not have such a strong influence, speculations of transfer prices touted by the media during transfer seasons may to some degree affect prices that are quoted. Players that perform well most often attract the attention of journalists and have a large fan base. However, this factor was mostly unique to premier league clubs included in the study.

4.4 Discussion of results

This section discusses the findings of the study and compares it to findings made in the literature review to identify any similarities or differences within the study.

4.4.1 Ghanaian football clubs and European football clubs in the transfer market

Using the European transfer market as a basis for comparison, it is evident from the findings of the study among the local Ghanaian clubs that football markets across the world have similar characteristics and issues concerned with quoting transfer fees for players. It is important to note that interview discussions with respondents indicated the preference of European clubs as the desired foreign placement for local Ghanaian clubs. An important factor that was derived from the results collected indicate that like the European market, Ghanaian clubs rely on the performance of players for success and thus are always eager to keep players who perform quite well or buy them from other clubs. This falls in line with the concept put forward by Sloane that clubs will pay a high transfer fee to acquire a player who

performs well or on the other side, quote a high price to offering clubs for a well performing player (Sloane, 1969).

As with the European market which views the acquisition of players as an investment, responses from the Ghanaian clubs indicate that club owners and managers acquire players based on the future prospects they will bring to the club. It also corresponds with the theory that buying players is an investment that the club makes due to the expected returns to be acquired (Antonietti, 2006). The clubs from the premier league and first division specifically indicated that revenue from player branded paraphernalia is part of the returns clubs get from players especially when those players perform well and have a huge fan appeal.

4.4.2 Measuring Football Skills as Human Capital

From the results gathered during the study, human capital in the football sector can be identified as a firm specific type of human capital as discussed in the literature (Dae-Bong, 2009). Football players are said to possess firm specific human capital because of the training, work experience and education they acquire gradually in their field of work. Football players are therefore transferred across clubs in the same industry and not to different sports like basketball which also require a different set of skills.

In considering transfer fees, it is evident that the amount of money requested for as compensation for losing the by clubs can be likened to the opportunity cost model (Flamholtz, 1971) where the football clubs consider the cost of hiring new players to replace players being transferred.

A look at the factors considered by the clubs to propose transfer fees indicate that the duration of the contract agreed with the player also affects the amount of money in the transfer process. This can be matched to the stochastic rewards valuation model (Flamholtz, 1971) which considers the future benefits of an individual to an organisation over the period he or she is expected to stay in that organisation. In the football sector, the contracts between the player and the club have a length of engagement which is clearly spelt out in the contracts that are signed and agreed on.

Clubs also consider the acquisition cost proposed by Likert (Garg) of hiring players by capitalising on total expenditure on acquiring and training players. These costs include training costs, hiring of fields, trainer wages and jersey and equipment costs.

However, the system of transferring players cannot be likened solely to the valuation model of opportunity cost, the Stochastic Rewards Valuation Model (Flamholtz, 1971) and the acquisition cost model (Garg). From the findings, it is apparent that other factors are taken into consideration which are not all captured by these models.

Another aspect clubs consider in determining transfer fees based on the factors clubs consider is the need to make profit. Clubs interviewed indicated that most often than not, amount bargained for on the transfer fee is to ensure that there is a profit acquired over the investment in players.

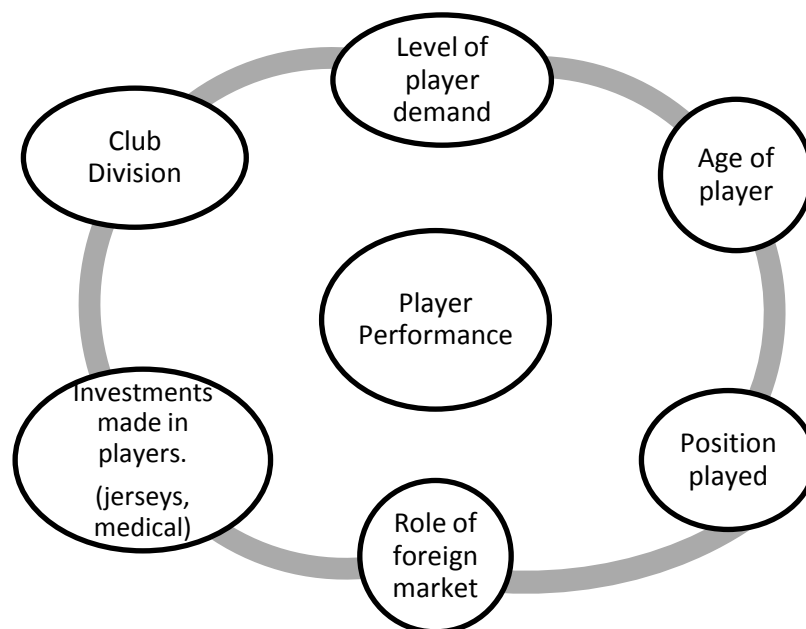
As with many organisations and industries attempting to adopt the models put forward by researchers to value human resources, the football clubs also have

shortcomings with adopting all factors considered to determine transfer fees into one valuation model.

4.5 Summary

From the analysis and discussions of the findings of this study, it is quite clear that there are quite a number of factors taken into account when proposing football player transfer fees. However, as indicated above, the performance of the player during playing seasons seems to be the most crucial factor in all the factors considered. The difference in transfer fees is also quite evident because of the unique costs that are associated with each player. Though quite a number of factors are mentioned, the performance of the player is the first thing that attracts prospective scouts to approach their home clubs as shown in chart 2. As established in the study, the ability of players to demonstrate excellent performance during games is very important.

Chart 2: Determinants of transfer fees for football players in Ghana



4.6 Derived model based on factors considered

From the findings shown, it can be seen that although clubs do not have a specific named model being used after consideration of factors to determine transfer fees, a possible model can be derived:

Chart 3: Proposed valuation model



The future value of accounting for investments made in player will include training costs, healthcare expenses incurred and cost of jerseys and gear acquired. An excess of gains the buying club will benefit from gaining the player and the opportunity cost of losing the player from the home club should be considered and included in the value of transfer fees (Methods of Human Resource Accounting). Gains from the player will take into consideration the player's performance and the probability of money to be derived from matches the player will take part in and paraphernalia gains. The buying club should also consider the position the player has on the field as well as the demand for the player in calculating gains from the player. The length of stay in the club should be considered. This is derived from the duration of the contract that is signed.

The next chapter presents conclusions and makes recommendations based on the findings above.

Chapter Five: Conclusion and Recommendation

5.1 Introduction

This study sought to determine the factors which football clubs taken into account when proposing transfer fees for players as a part of valuation of human capital. The research design employed purposive snowball and random sampling technique which helped identify 10 respondents from local football clubs across the various league divisions implemented by the Ghana Football Association who helped in the data analysis.

5.2 Key Findings

The findings from the respondents made it possible to address the main research objectives. These were to:

- a) Investigate the factors that are taken into account when proposing player transfer fees.

Respondents from the study indicate that eight main factors affect the quoting of player transfer fees. However, while these factors are all considered and related, the main dependent factor was found to be the level of fitness and performance of the player.

- b) Find out how clubs measure the value of training and health care given to players (investment made).

Clubs as per the contracts signed with players, cater for the cost of medical expenses covering injuries sustained by players and equipments needed for

training. All these costs are documented as part of the clubs expenses and are considered when proposing player transfer fees.

5.3 Conclusions

From the findings of the research, the following conclusions were made from the study:

- a) Human capital valuation is very prominent in the football sector through the proposal of transfer fees.
- b) Clubs consider a lot of factors in proposing player transfer fees. However, the main factor that affects all the others is the performance of the players.
- c) From responses gathered, clubs do not have a specific valuation model to use after considering all the factors to propose transfer fees. Transfer fees are based on the judgements of managers and can be bargained. Transfer fees inevitably have a speculative dimension.
- d) The goal of clubs is to achieve significant capital gain on resale of players. Clubs propose a figure for transfer higher than the amount spent on acquiring players.

On a broader view, it can be concluded that the results of this study indicate that human capital may be demanding to measure. However, it is more demanding when unsuitable methods are used. It can be said that human capital is only intangible when ineffective methods are used to value it (Smart, 1998).

5.4 Recommendations

Since, the local Ghanaian football clubs interviewed do not have a standard valuation model for valuing players, it will be appropriate to adopt a system of quantifying all stated factors and not base valuations too much on judgements of managers and owners of football clubs. The proposed model for clubs in chart 3 can be adopted by local football clubs as a basis for proposing transfer fees. This will enable clubs justify transfer fees when doubts are raised concerning them.

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Appendix 1

Valuation of human capital in the sports industry: A study of the Ghanaian football sector.

Interview Questions:

These questions are structured with the knowledge that clubs approached partake in player transfer valuation and structured to guide the interview to achieve goal of study.

- What division does your club fall under?
- What factors are taken into consideration when determining transfer fees?
- Has there ever been a cause to change any of these factors since they were introduced?
- Do any of the factors considered play a more critical role than others?
- Are the factors considered used for all players?
- Are there any external factors that affect your choice of valuation?
- How do you value the factors that are considered before proposing a total amount?

Ashesi University College
BA 2014

Appendix 2

Consent Form for Participation in a Research Study

Ashesi University College

Research Topic: Valuation of Human Capital in the sports industry. A study of the Ghanaian football sector.

Description of the research and your participation

You are invited to participate in a research study conducted by Harriet Mateko Mate-Kole. The purpose of this research is to identify if any, laid out methods football clubs use to value their human capital (football players).

Your participation will involve answering interview questions on human capital valuation methods which will be conducted by the principal investigator

Risks and discomforts

There are no known risks associated with this research.

Potential benefits

This research may help us to understand the various determinants of transfer fees and the need for human capital valuation in various organizations with a focus on the football sector in Ghana. It will also show various models which are applicable to human capital valuation.

Protection of confidentiality

We will do everything we can to protect your privacy. Your identity will not be revealed in any publication resulting from this study.

Voluntary participation & withdrawal

Your participation in this research study is voluntary. You may choose not to participate and you may withdraw your consent to participate at any time. You will not be penalized in any way should you decide not to participate or to withdraw from this study.

Contact information

If you have any questions or concerns about this study or if any problems arise, contact Harriet Mateko Mate-Kole at Ashesi University College on 0246539052

Email: harriet.mate-kole@ashesi.edu.gh

Consent

I have read this consent form and have been given the opportunity to ask questions. I give my consent to participate in this study.

Participant's signature _____ Date: _____

"This research protocol has been reviewed and approved by the Ashesi University Human Subjects Review Committee. If you have questions about the approval process, please contact Chair, Ashesi University HSCR, rdouglass@ashesi.edu.gh